

PUBLIC DISCLOSURE

March 24, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F & M Bank - Massanutten

05512488

1855 East Market Street

Harrisonburg, Virginia

**Federal Reserve Bank of Richmond
P. O. Box 27622
Richmond, Virginia 23261**

This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of F & M Bank - Massanutten, Harrisonburg, Virginia prepared by the Federal Reserve Bank of Richmond, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of March 24, 1997.

It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under five performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

This institution is rated satisfactory based on the findings presented in the following discussion of the institution's performance.

F & M Bank - Massanutten primarily serves its delineated community through direct lending. A full range of credit products is offered including residential mortgage, home improvement, mobile home, small business, commercial, agricultural, consumer, and community development loans. Furthermore, a substantial majority of the bank's 1996 loans were originated within the delineated community and the distribution of lending was considered reasonable. The institution's fair lending practices, policies, and procedures are appropriate, and there is no evidence of disparate lending practices. Additionally, management's outreach efforts are indicative of their commitment to meet local credit needs and participate in community development endeavors.

SCOPE OF EXAMINATION

An evaluation of F & M Bank - Massanutten was conducted to assess CRA performance.

The assessment was based on statements made by bank management and staff, minutes of the board of directors' meetings, various other bank records, and a discussion with a local individual knowledgeable about community development. The institution's performance was evaluated in the following categories: geographic distribution, marketing and types of credit offered and extended, community development, fair lending, and ascertainment of community credit needs. Procedures, policies, and other considerations were also evaluated to measure CRA performance.

PROFILE

Description of the Institution

F & M Bank - Massanutten, a subsidiary of F & M National Corporation, operates eight offices in the City of Harrisonburg, and the Towns of Broadway, Bridgewater, Grottoes, and Timberville, Virginia. As of December 31, 1996, the bank had \$173 million in assets of which 61% were loans. A wide variety of deposit and loan products is available through the institution, including loans for home purchase, home improvement, residential construction, consumer, and commercial purposes. The loan portfolio as of December 31, 1996, was 60% real estate secured (consumer and business), 24% consumer, and 16% business.

The bank's loan-to-deposit ratio as of December 31, 1996 is 72%. Since September 30, 1995, total loans have increased by 15% while total deposits have increased by 6%. The recent average loan-to-deposit ratio for banks headquartered in nonmetropolitan areas of Virginia and of similar asset size to F & M Bank - Massanutten is 72%.

Reasonableness of Delineated Community

The local community has been delineated to include all of Rockingham County (including the City of Harrisonburg) and census tracts 702.00, 703.00, and 704.00 in adjoining Augusta County, Virginia. Considering the bank's financial condition, resources, and the credit needs of the community, this delineation appears reasonable.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

Conclusion/Support

Through its outreach efforts, management is aware of lending and community development opportunities within the delineated community. Rockingham and Augusta Counties are located in the Shenandoah Valley of Virginia, equidistant from the District of Columbia and the Cities of Richmond and Roanoke, Virginia. According to the 1990 census, the population of the delineated community is 99,433. The local economy is dominated by the poultry industry with agriculture, tourism, and manufacturing firms providing additional employment. Furthermore, the area is home to James Madison University, Bridgewater College, and Eastern Mennonite College and Seminary which offer employment and educational opportunities to its residents. The unemployment rates of the City of Harrisonburg (2%), Rockingham County (2.8%), and Augusta County (2%) remain below the Commonwealth's rate of 4.5%.

The delineated community includes 28 census tracts, of which two are unpopulated. Of the remaining 26 census tracts, 13 are considered middle-income and 13 are upper-income. There are no low- or moderate-income census tracts located within the delineated community. The chart below portrays the percentage of the population residing in middle- and upper-income census tracts within the delineated community.

Percentage of Population within the Delineation by Census Tract Income Level

	Middle-Income	Upper-Income	Total
Percentage of Pop. Residing in Census Tracts of Varying Income Levels	48%	52%	100%

Additionally, the following table depicts area families by low-, moderate-, middle-, and upper-income levels.

Percentage of Families in the Delineated Community by Income Level

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Percentage of Families	12%	15%	24%	49%	100%

F & M Bank - Massanutten has supported local community development efforts by participating in various projects and lending opportunities consistent with its size, financial capacity, location, and local conditions.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

Conclusion/Support

The board of directors has appointed a CRA Officer to coordinate the CRA program. The program integrates various activities directed toward achieving and maintaining appropriate CRA performance. Outreach, marketing, training, periodic self-assessments by the board of directors, and branch closing procedures are all part of the program. The board of directors has also appointed a Compliance Review Committee on which board members serve. The committee meets quarterly and discusses CRA related issues, as well as other regulatory matters. The board of directors also periodically reviews a geographic distribution analysis of all applications received by the bank to insure that the needs of the entire delineated community are being met. CRA goals and objectives are clearly outlined and understood by all personnel. Furthermore, the board has expanded its CRA Statement to include a detailed description of the bank's performance in helping to meet community credit needs.

CRA PERFORMANCE

I. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING BRANCHE

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

Conclusion/Support

The geographic distribution of all credit applications is recorded by census tract. An analysis report is periodically prepared for management and board review. The report tracks lending activity for each of the 26 populated census tracts in the delineated community. As previously mentioned, there are no low- or moderate-income census tracts within the delineated community. Of the census tracts inside the local market, 13 are middle-income and the remaining 13 are upper-income.

An analysis of all loans originated during 1996 indicated that 92% (3,867/4,209) of the loans were extended to residents of the local community.

A further analysis of mortgage loans extended during the same time period evidenced penetration in all 26 census tracts. Given the institution's size, location, and volume of lending, the data reflect a reasonable penetration of lending throughout the delineated community.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

Conclusion/Support

The institution's eight offices are reasonably accessible to all segments of the community and hours of operation are considered convenient. Although no branches have been closed since the previous evaluation, an office in Timberville, Virginia was opened in December 1995. A formal branch closing policy that meets the requirements of the Federal Deposit Insurance Corporation Improvement Act 1991 has been adopted.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

Conclusion/Support

As identified in the CRA Public File, a full range of credit products is offered including residential mortgage, home improvement, small business, commercial, consumer, and community development loans. The following chart depicts the bank's 1996 lending activity by number and dollar amount.

F & M Bank - Massanutten Loan Originations - 1996		
Description	Number	Amount (000's)
Consumer Loans (non real estate)	2,095	\$109,496
Motor Vehicle Loans	839	\$57,151
Real Estate Secured *	349	\$25,610
Home Equity Loans	25	\$1,189
Small Business Loans	316	\$18,767
Small Farm Loans	39	\$797
Total	3,663	\$213,010

* Some of these real estate secured loans may also be included in the small business loan total shown in the chart.

The bank is primarily a retail lender and offers many consumer loan products. In particular, mobile home loans, which often provide affordable housing to low- and moderate-income borrowers, are routinely extended. Since the previous evaluation, 44 mobile home loans totaling \$963,986 have been funded. Also, 2,643 loans totaling \$18.1 million have been extended to low- or moderate-income borrowers since the previous evaluation.

As evidenced by the chart above, 10% of the number of loans extended during 1996 were small business or small farm loans. Credit for business start up and expansion purposes is routinely extended. Since the previous evaluation, 15 loans for business start up and nine expansion purpose loans totaling \$1.2 million have been provided.

Assessment Factor J - The institution's participation in governmentally insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

Conclusion/Support

Several types of Government sponsored loans are available through the bank. Since the previous examination, one Small Business Administration loan for \$65,000 has been extended. During the same time period, 26 Rural Housing and Community Development Service loans were funded for \$762,837. In addition, the bank offers FHA Title I loans for mobile home purchases. These loans require a minimal down payment by the borrower and use less stringent underwriting criteria than conventional financing. During 1996, 23 FHA Title I loans were originated totaling \$700,759.

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Conclusion/Support

The marketing program primarily consists of service and product advertisements placed in area newspapers and broadcast on local radio and cable television stations. Loans and deposits are further promoted through billboards, statement stuffers, and lobby posters. Although advertisements are generally institutional in nature, the bank periodically uses these mediums to promote new loan and deposit products. Director and officer contact and involvement with civic, business, and social organizations are also utilized for communicating the availability of products and services. This marketing strategy is considered adequate given the institution's size and location.

III. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Conclusion/Support

The institution's participation in various projects promoting economic revitalization and growth within its community has taken the form of direct loans, Government assisted loans, contributions, financial services, and technical expertise.

Support for community development is evidenced by a 72% loan-to-deposit ratio.

The types of credit advanced by the institution have financed business start up and affordable housing projects that have created jobs and provided housing for local residents. Some of the loans recently extended for community development purposes include the following:

A \$750,000 loan was extended at a below-market rate to a local municipality to expand its water treatment facility. This funding increased both its capacity and number of employees.

Credit in the amount of \$94,000 was extended to a nonprofit organization to provide housing for four handicapped individuals.

Three loans totaling \$442,000 were originated to fund new business start up costs which helped create new employment opportunities.

Financing totaling \$82,000 was extended to fund two business expansion projects.

The bank has also pledged \$200,000 to the Harrisonburg Redevelopment and Housing Authority (HRHA) loan pool. To date, however, the HRHA has funded all projects internally and has not drawn on the pledged funds.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

Conclusion/Support

Small dollar amount consumer loans are offered and often help meet the needs of low- and moderate-income borrowers. Since the previous evaluation, 736 loans for \$1,500 or less have been provided. Donations of human and financial resources are routinely made to a variety of local nonprofit organizations and schools. During 1996, \$28,599 was contributed to various nonprofit causes and charities.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

Conclusion/Support

A review was made of written loan policies, forms, and 40 accepted and 16 denied loan applications. A loan officer interview was also conducted to obtain information regarding management's fair lending policies and procedures. Management currently performs a second review of denied applications to insure the consistent application of loan policy and practice.

The review of files conducted during the examination demonstrated an equal application of credit standards and no discriminatory credit practices were identified. However, technical violations of the Equal Credit Opportunity Act's Regulation B were identified.

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

Conclusion/Support

Adequate policies, procedures, and training have been developed to support nondiscrimination in lending and credit activities. Applications are solicited from all segments of the delineated communities, including low- and moderate-income neighborhoods.

V. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Conclusion/Support

Outreach efforts are considered satisfactory and demonstrate a willingness by the institution to assist in community development. Management utilizes an officer call program to help determine the credit needs of the delineated community. Under the program, bank officers contact local business and community organizations and leaders on a regular basis. Director and officer involvement in community and trade organizations supplement the call program. Bank officials maintain significant relationships with economic development organizations, chambers of commerce, and civic groups.